



PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

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NOTICE FOR MEMBERS

CONSOLIDATION OF REGULATORY AUDITS / INSPECTIONS OF SECURITIES BROKERS INTO JOINT INSPECTION REGIME

Dear Members,

The Oversight Committee, comprised of the representation of three SROs, the Pakistan Stock Exchange, the Central Depository Company of Pakistan, and the National Clearing Company of Pakistan, has shared its presentation with respect to the Consolidation of Regulatory Inspections into Joint Inspection Regime. The presentation is based on our recommendations to the Regulators to introduce a Consolidated Mechanism for multiple audits.

The Oversight Committee has invited further suggestions/recommendations/feedback/advise in this regard from the Association.

Therefore, members are requested to kindly share feedback after going through the attached presentation enabling us to convey the same to the authorities.



SECRETARIAT
Pakistan Stock Brokers Association



CONSOLIDATION OF REGULATORY AUDITS/INSPECTIONS OF SECURITIES BROKERS INTO JOINT INSPECTION REGIME

FEBRUARY 22, 2022

INTRODUCTION

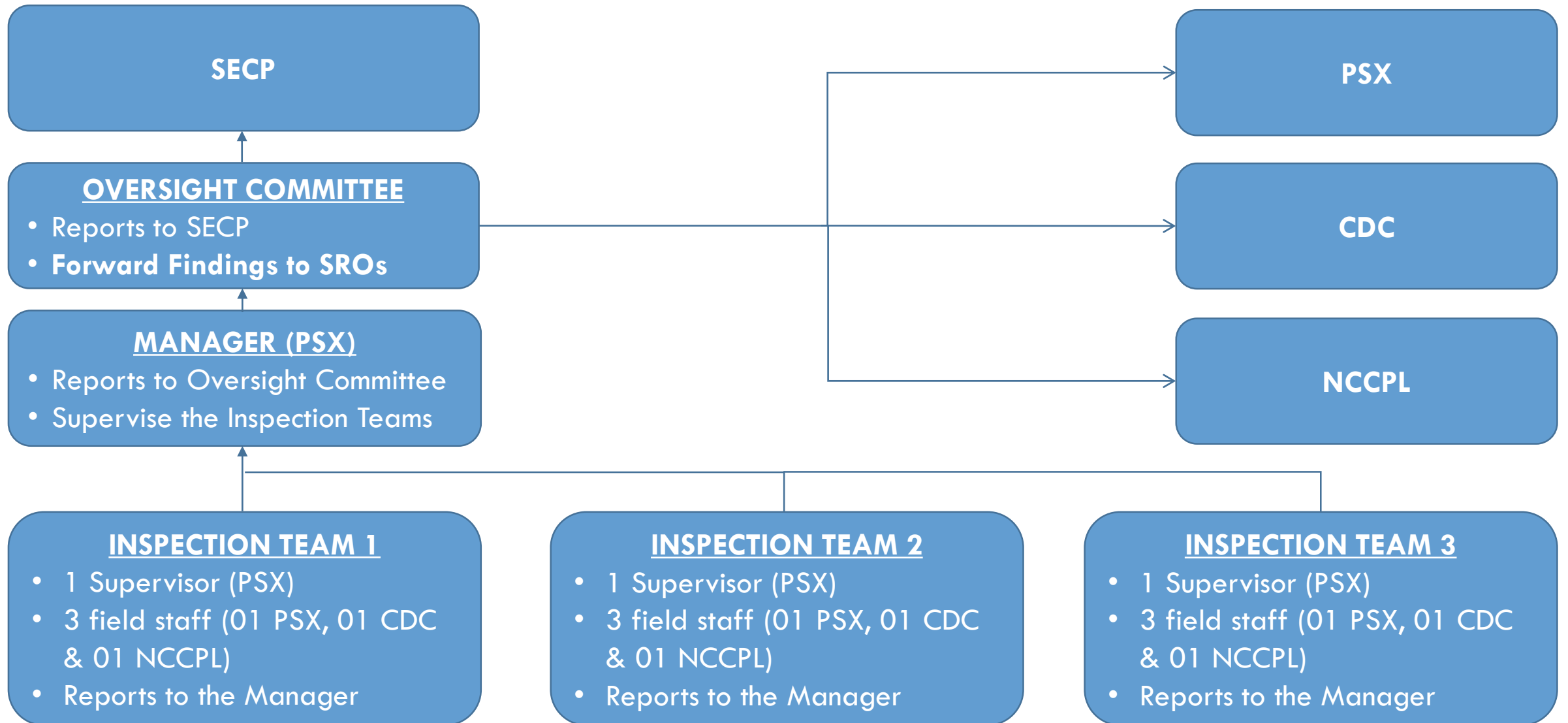
- SECP introduced Joint Inspection regime by promulgating Joint Inspection Regulations, 2015 with effect from October 15, 2015.
- Joint Inspection regime is a comprehensive on-site inspection framework designed to cover regulatory scopes of PSX, CDC and NCCPL from order instructions to trade settlement.
- The objective to implement Joint Inspection regime is to have a risk-based inspection framework for brokers through a central platform with comprehensive scope.
- With the implementation of Joint Inspection regime, it was envisaged that multiple regular regulatory audits and inspections of the three SROs would be discontinued.
- Currently, due to the resource limitation, the Joint Inspection regime is functioning alongside with the requirements of other regulatory audit/inspections.

INTRODUCTION

- Presently, brokers are subject to following types of regulatory audits and inspections by SECP, PSX, CDC and NCCPL:

| Sr. No. | Audits/Inspections | Inspecting Authority | Scope | Average No. of Field Work Days | Under Regulation | Frequency |
|--------------|--------------------------------------|-----------------------------|--|--------------------------------|------------------------------------|-------------------|
| 1 | Joint Inspection (“JI”) | Jointly by PSX, CDC & NCCPL | Comprehensive Scope | 35-40 | Joint Inspection Regulations, 2015 | Risk Based |
| 2 | System Audit | PSX | Scope also part of JI | 15-30 | PSX Regulations | Once in Two Years |
| 3 | IBTS Audit | PSX | Non-technical part already covered in JI scope | 5-10 | PSX Regulations | Once in Two Years |
| 4 | CDC Inspection | CDC | Scope also part of JI | 15-20 | CDC Regulations | Once in Two Years |
| 5 | System Audit | NCCPL | Scope also part of JI | 10-20 | NCCPL Regulations | Once in Two Years |
| 6 | SECP Inspections and Thematic Review | SECP | Scope mainly part of JI | 20 | SECP Act | Risk Based |
| Total | | | | 100-140 | | 3 |

REPORTING STRUCTURE OF JOINT INSPECTION



PROCESS OF JOINT INSPECTION

Inspection Notice, Planning, Execution and Completion of Field Work

50 DAYS

Drafting & Issuance of Letter of Finding to Broker for Management Comments

15 DAYS

Counter Comments by Inspection Team & Submission of Draft Inspection Report to OC for Review

15 DAYS

OC Review / Approval & Submission of Final Report with SECP

30 DAYS



CONSOLIDATION OF REGULATORY AUDITS / INSPECTIONS

LATEST INSTRUCTIONS OF SECP:

SECP has approved the revised framework for joint inspection to consolidate the other regulatory audits and inspections of SROs.

BENEFITS OF CONSOLIDATION:

- Removal of multiple audits including system audits/inspections and corresponding inspection costs
- Ease of doing business for brokers
- Efficiency in brokerage business operations
- Central and joint platform for inspection of brokers
- Monitoring of regulatory compliance with all SROs through single inspection
- Improved compliance culture among brokers
- Quality of regulatory inspections through in-depth analysis
- At par with international standards

KEY FACTORS RELATING TO CONSOLIDATION OF JI

| Factors | Consolidated JI | Existing Regulatory Inspections |
|--|---|--|
| Inspection Cycle | Risk Based with 3 Years Inspection Cycle | Vary from Two to Three Years (Refer Table in Slide 3) |
| Scope of JI / Scope of Regulatory Inspections | <ul style="list-style-type: none"> • System Audit of PSX • IBTS Audit (Non-Technical Areas) • System Audit of NCCPL • CDC Inspections • SECP AML/CFT Regulations, 2020 | |
| No. of Full Scope JI to be Conducted per Year (Max. Capacity) | 66 | - |
| Average No. of Days of Field Work | 35-40 | 100-140 (Refer Table in Slide 3) |
| Limited Scope Inspection [LSI] Frequency | Every non-compliant Broker in Full Scope JI shall be inspected under LSI | - |
| No. of Staff Required | 39 | - |
| JI Cost (Rounded Off) | PKR 60 Million | - |

INSPECTION FEE OPTIONS

1. **Fixed Fee Per Broker Per Annum:** Each broker will have to pay a fixed inspection fee every year based on its category.

| Description | Proposed JI Regime | | |
|---|--------------------|----------------|----------------|
| Total Inspection Cost | 58,951,959 | | |
| Securities Brokers' Categories | TO | TSC | TC |
| No. of Securities Brokers in each Category | 36 | 155 | 8 |
| Ratio of Cost Recovery | 3 | 4 | 5 |
| Cost Recovery from each Category | 8,290,119 | 47,591,425 | 3,070,415 |
| Cost Recovery from Each Broker | 230,281 | 307,041 | 383,802 |
| Annual Avg. Cost Recovery from Each Broker | 230,000 | 310,000 | 390,000 |

INSPECTION FEE OPTIONS

2. Variable Fee Per Broker Per Annum: Each broker will have to pay a variable amount of supervision fee per year depending upon its traded value.

- The standard supervision fee rate will be **0.4119 paisa** (estimated based on the traded value of 2020-21) on every traded value of Rs.100,000.
- The supervision fee rate will be determined every year based on the total traded value of the preceding year.

| Without Ceiling And Floor | With Ceiling And Floor |
|--|---|
| <p>Limitation:</p> <ul style="list-style-type: none">• A broker may end up paying as high as PKR 5.7 Million• Approx. 35 brokers may end up paying less than PKR 10,000 each due to negligible trades. | <p>Benefit:</p> <p>The recovery level of inspection cost can be determined by applying different level ceiling and floor caps.</p> <p>For example, to recover inspection cost i.e. [PKR 58.95 Million], the ceiling and floor caps will be PKR 490,000 and PKR 250,000.</p> |

THANK YOU